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September 30,1991

DRUG STORE NEWS

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LATE NEWS

• **INDIANAPOLIS — Hook-SupeRx, Inc. named Michael Moore senior vp and COO, a new post that reports to ceo and chairman Philip Beekman. The presidents of SupeRx, Hook and Brooks will report to Moore, who was senior marketing executive at Philip Morris.**

• **PONTIAC, Mich. — David Green has left his vp post at Perry Drug Stores to join former Perry ceo David Schwartz at Phoenix-based Smitty's, a combo retailer, as senior vp-marketing.**

• **TWINSBURG, Ohio — Revco D.S. has promoted James Ayers Jr. to the new post of director-professional operations.**

FEATURES

Low prices are here to stay

Deep discounting has caught on like fire, and leading the pack are Phar... po-rium... 11.

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SECOND CLASS

A.L. Price seals deal on Freddy's

By James Frederick

SUMMARY: The merger of two strong regional deep discounters turbocharges growth for chief executive Bill Edwards, who likes plenty of site opportunities in Florida and upstate New York.

WARREN, Mich. — A.L. Price has finalized its takeover of 24 Freddy's stores in New York and Florida from Melville Corp., the parent company of CVS.

The deal, closed Aug. 27 after more than two months of intensive negotiations, marks the merger of two strong regional deep discount drug chains into a three-state organization with 37 stores doing roughly $250 million in combined business. A.L. Price chief executive Bill Edwards said the deal offered "fantastic" growth opportunities, and termed the Freddy's stores "excellent plants to compete with."

Dick McLean, A.L. Price executive vp, said all headquarters operations and staff would be relocated to the Freddy's headquarters offices in Rochester, N.Y. That includes buying, advertising, accounting, finance and administrative functions,

See **A.L. Price** *page 4*

The ALP/Freddy's network
Locations by state

Florida	New York	Michigan
Boca Raton	Amherst	Allen Park
Boynton Beach	Buffalo	Dearborn
Coral Springs	Cheektowaga	Detroit
Ft. Lauderdale	Rochester (3)	East Detroit
Jensen Beach	Niagara Falls	Grosse Pt. Farms
Lauderdale Lakes	North Syracuse	Madison Heights
Miami (2)	West Seneca	Mt. Clemens
North Miami		Southfield
Pembroke		Southgate
Plantation		Warren (2)
Pompano Beach		Westland
Seminole		
Tampa		
West Palm Beach		

Source: A.L. Price

New England gears for new assault by off-pricers

BROCKTON, Mass. — Two of the nation's three biggest deep discounters are making their first incursions into New England this month, and both have put Boston squarely in their sites.

F&M Distributors opened its first New England store in this city of 100,000, just south of Boston, Sept. 10. Drug Emporium is following at the end of the month with its first store in the region, in the suburb of Bedford, near Manchester, New Hampshire. That store, on the fringes of metropolitan Boston, not far from the Massachusetts border, is the first of several the chain will open in the region in coming months.

Wilber called Boston and New England "major markets with the ability to provide multiple opportunities for new-store growth."

Drug Emporium president Gary Wilber called Boston and New England "major markets with the ability to provide multiple opportunities for new-store growth," particularly with the slowdown in real estate development by other re-

See **New England** *page 4*

Exclusively HBA gets a thumbs up

By Elizabeth Parks

NEW ORLEANS — The second annual Exclusively HBA show, which ran here earlier this month, had some weak spots, but as a whole attendees rated it fairly high and many small to mid-size vendor companies said they had a great show.

Many of the retailers who attended also gave the show good marks, with plenty to see and lots of leads to follow up.

Although the show is primarily skewed to mass merchandise accounts, wholesale membership clubs and wholesaler/distributors, there were a fair number of drug chains in attendance.

According to Jay Spaulding, the show's principal and ceo, drug chains accounted for 10 percent of the companies in attendance and 13 percent of the buyers.

Among the major drug companies walking the floor this year were American Drug, Big B, Harco, K&B, Drug Emporium, Revco, Sid's Get it For Less and Thrifty.

As it turned out, many drug and food chains did elect to pass on this show because, as several told us, it duplicates so much of what they've seen at trade shows sponsored by the National Association of Chain Drug Stores and the Food Marketing Institute. However, the consensus among the drug and food retailers who came was that the show was worth attending.

"If you're in the drug store business, you have to be here," said Vincent Bruno, vp of merchandising for Big B.

See **Exclusively** *page 4*

Ethnic cosmetics are hot, hot, hot

Yesterday, it was a stepchild.

Today it's one of the hottest growth categories in chain drug stores.

The "it," of course, is ethnic cosmetics, and according to buyers, some chain drug stores are enjoying year-to-date sales increases as high as 200 percent. Buyers agree that there are logical reasons for the success.

"For so long, there hasn't been a lot happening in ethnic cosmetics," says K&B's Donna McManus. "Now, all of a sudden, everyone's coming out with an ethnic cosmetic line, and finally we do have a lot more to offer consumers."

"There is a future for ethnic cosmetics, and it's one I want to go after," agrees A.L. Price's Nancy Stone.

Buyers like Stone, McManus, Revco's Judy Wiencze Wray, Pay Less's Shari Ralston and Bill's Sharon Schrage feel that with all the new launches in the category, stores have a chance to offer a lot more selection.

Stone says drug store merchants should be able to take the women buying the upscale Fashion Fair line in department stores and get them "to take a look at what we carry in our stores." For a more in-depth report on ethnic cosmetics, as well as the current state of ethnic HBA sales, see our special report beginning on page 73 of this issue.

NEWS IN BRIEF

NACDS forms group on pharm issues

ALEXANDRIA, Va. — NACDS has formed a Committee on Pharmacy Practice and Education Policy to review the positions and actions of pharmacy organizations, educational institutions and regulatory bodies, and determine how they affect chain drug store pharmacy. The committee, composed of 10 NACDS board members, will also advise the NACDS board on which practices help or hinder their objectives of enhancing community practice and promoting the continuation of multiple degrees in pharmacy schools.

In related developments, NACDS announced a series of promotions to strengthen the group's activities in a few areas. Kurt Proctor, Ph.D., R.Ph., has been named director-research and policy development and will assume responsibity for education-related issues.

Laura Weber, R.Ph., is now director-pharmacy educational and professional programs. Roy Bussewitz, R.Ph., is now director-third-party and regulatory programs. Proctor, Weber, and Bussewitz will report to Randy Teach, senior vp-policy.

Mary Johnson has been promoted from assistant meetings manager to meetings manager. Bonnie Loranty has been named project manager-trade relations. Both will report to Ted Peterson, senior vp-trade relations.

Kroger aims for hearts of Cowboy fans

DALLAS—Kroger Co. has taken an unusual step to win new converts in this town, where football is on a par with motherhood and apple pie and Tom Landry is the unofficial mayor. The combo chain agreed just before the start of the football season to buy all remaining tickets before the blackout deadlines of the first three Dallas Cowboys home games.

Kroger's move staved off the threat of TV blackouts. A local observer said the promotion generated a bonanza of positive press for the chain. Kroger is using the tickets as giveaways to customers who shop its stores, thus gaining more converts.

Meanwhile, Kroger, Tom Thumb/Page Drug and Jewel/Osco are all faced with a new competitor in Dallas. Fast-growing Food Lion has hit town, spurring a furious round of price-slashing among combo rivals.

Two finance execs move at Phar-Mor

YOUNGSTOWN, Ohio — Two financial executives have been promoted at Phar-Mor. Jeffrey C. Walley, former corporate controller, has been named vp-finance at the Pittsburgh-based deep discounter. Walley will be responsible for all finance and treasury functions at Phar-Mor and Tamco, Inc., Phar-Mor's distribution center. He will now report to senior vp and cfo Pat Finn. Stanley J. Cherelstein, previously controller for Tamco, Inc., has been named controller of Phar-Mor. He will now be responsible for financial reporting, budgeting, and accounting at the chain.

Spokesperson Carol Robinson said both positions were newly created to reflect the growing responsibilities the executives had been handling.

Bike race for MS to be held in NYC

NEW YORK — Pharmaceutical companies will be among the leaders as 200 New York-area corporations field teams for the seventh annual Fall Bike Tour sponsored by the National Multiple Sclerosis Society on October 20.

American Cyanamid, which raised the most money in last year's event, will have a team of 100. Pfizer, Sandoz, and Schering will also provide cycling challengers, according to an event spokesperson. Over 5,000 cyclists are expected to raise $750,000 by participating in the 55-kilometer tour through traffic-free streets in Manhattan, Brooklyn and Queens. Corporate teams will compete for the Sports on Broadway Cup.

MS is an often-disabling disease for which there is no known cause or cure. The funding supports vital services and research.

Revco, creditors are split on bank debt question

SUMMARY: Revco's ongoing struggle to emerge from bankruptcy gathered steam in early September with the release of a new financial reorganization plan by its creditors. The plan envisions a different settlement than the one proposed by Revco; it may set the stage for a showdown in court.

By James Frederick

AKRON, Ohio — Revco's creditors have filed an alternative reorganization plan for the bankrupt company in response to a plan filed by the chain's own board of directors three months ago. Both aim to pull the chain out of its three-plus-year hiatus in Chapter 11, but the two plans differ in significant ways.

The biggest difference is in the amount of bank debt the two groups assume a post-bankrupt Revco could carry. The chain's own plan of reorganization proposes that the post-bankrupt chain carry $309.5 million in bank debt after paying off all obligations. Creditors argue that the debt load envisioned by Revco's board is too high; their alternative plan assumes $205 million in bank debt.

Split decisions

The difference arises from how each plan assumes each class of creditors will be paid off. The creditors' plan, filed with U.S. Bankruptcy Court here Sept. 6, would give pre-LBO bondholders convertible preferred stock in the reorganized company in lieu of the cash proposed in Revco's plan. Junk bondholders would also trade in their notes, now a fraction of their original value, for new stock.

The creditors' plan also leaves nothing for Revco's current owners, who are heavily represented on the chain's board. Under bankruptcy law, any claims to Revco's assets by current stockholders would take a back seat anyway to claims by lending banks, trade creditors and bondholders. These groups were owed a total of $1.45 billion when the company fled into Chapter 11 protection in July 1988.

Details of the creditors' plan are not yet available. The next step will be the filing of a disclosure statement with the court which details each aspect of the payout proposal and its impact on Revco's finances. Meanwhile, the court has yet to set a hearing date on the Revco plan and disclosure statement.

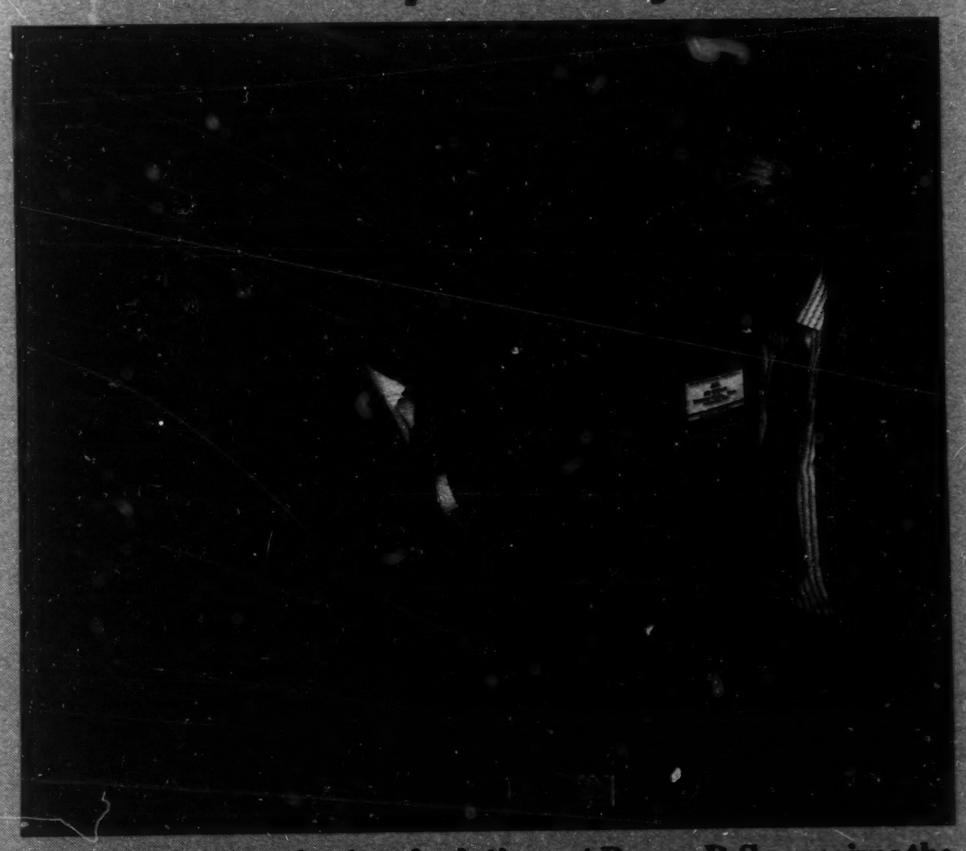
Reorganization

For Revco to emerge from Chapter 11, a reorganization plan must be approved by the court with the backing of a 51 percent majority of creditors, representing two-thirds of the dollar amount owed by Revco to its claimants. Efforts to bring the chain out of its long bankruptcy ordeal have already cost it more than $50 million in legal fees. Those efforts have been stymied by continued wrangling among different groups with competing claims to the company. Continued operating losses by Revco have also complicated settlement efforts, although the chain has been on a strong performance uptrend in most of its remaining markets.

For its part, Revco finds itself the object of a tug-of-war between its various classes of creditors, its current owners and its pre-LBO bondholders, all of whom have different ideas about how the company's financial obligations should be settled. But company spokesperson Diana Leuptow said Revco remains committed to a consensual agreement—whatever plan is approved by creditors.

"It will be our goal to support any plan that has consensus, is confirmable and leaves Revco in a healthy state going forward," Leuptow said. "This is not a war between two plans."

Revco vp Sebok accepts chain Rx'er/pharmacy award



Al Sebok, vp of professional relations at Revco, D.S., receives the NACDS/Harold W. Pratt award from Ron Ziegler, president and ceo of NACDS, while Jan Sebok joins in the congratulations. The award, presented annually in conjunction with the association's pharmaceutical conference, recognizes the chain drug store pharmacist whose activities have contributed to the promotion, recognition and improvement of the practice of pharmacy within the chain drug store industry.

Standard opens 'free Rx delivery' store

RICHMOND, Va. — Standard Drug is demonstrating its commitment to the downtown area here with its recent grand opening of a new 3,700-square-foot store, located in the historic "Ironfronts" complex on Main Street.

The store, which is open weekdays, marks Standard's introduction of free prescription delivery service to the downtown area. Both the new Ironfronts store and the chain's other downtown unit on Grace Street, will offer free pharmacy deliveries from 11 a.m. to 4:30 p.m., provided by The Bike Express courier service.

The grand opening Sept. 6 featured a live radio remote broadcast and appearances by local officials.

Standard's president, Tom Rosenthal, commented, "We are committed to the downtown area of Richmond and see it as a viable and lively retail area. By offering not only a new location, but also free prescription delivery, we hope to raise the level of service in the downtown area and make one more option available as an incentive for people to do their shopping here."

Standard, which with the Ironfronts unit, operates 61 stores, also offers free prescription delivery service in two other Virginia metropolitan markets.

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Wal-Mart carries a big stick and will use it

IN THE MARKET
BRUCE BUCKLEY

Carrots work. But sometimes sticks are better.

Wal-Mart took the latter approach when it informed vendors earlier this year that it would no longer tolerate a casual approach to UPC product coding. Make no mistake: Wal-Mart carries a big stick.

The discount giant told its product suppliers that it would impose stiff fines for violating UPC standards: 10 percent of the purchase order for a first offense and up to $100,000 (or 10 percent—whichever is higher) for three-time losers.

Privately, some of Wal-Mart's approximately 5,000 vendors expressed outrage at the penalty system. But, of course, nobody rebelled. Selling products into Wal-Mart stores is a pretty strong incentive for compliance.

The result of the get-tough policy? Scanning accuracy has improved from the 91 or 92 percent level to 95 percent, Curtis Arend, administrative manager of Wal-Mart's UPC item file, told *Drug Store News* senior editor David Vaczek. For Wal-Mart, the goal of 98 percent is going to require continuing vigilance, plus resolving some of its own problems with internal coding procedures, Arend said.

In improving the integrity of its product file, Wal-Mart gains in its ability to buy and manage inventory. The discounter already sets the standard for distribution efficiency, but if it is to achieve its long-term growth goals, it cannot afford to rest on its achievements.

Advantages also accrue to Wal-Mart's vendors. Cleaner UPC files mean more accurate and timely national and regional product movement information, better forecasting and stronger marketing all around.

Accurate UPCs also benefit the drug store industry, many of whose companies are now fully scanner-equipped or rolling out systems. Wal-Mart's "stick" may thus cast a longer shadow than anyone anticipated.

* * *

Retailing may be in the doldrums because of the sputtering economic recovery, but it would be hard to tell that from the robust activity of the three leading deep discounters profiled in this issue. Their growth has been nothing short of phenomenal.

While many other chains have gently tugged on the expansion reins, Phar-Mor, Drug Emporium and F&M have taken off at a furious pace, galloping into new markets with a loud clatter.

They are also relentlessly increasing their penetration of existing markets. They may eventually bang into some restraining wall out there, but they have not seen it yet. Overstoring is a word not found in their dictionaries.

In today's economy, it's imperative to understand what's motivating customers. The Big 3—and others in this rapidly expanding retailing segment—have a firm grasp on the worrisome forces confronting consumers.

Their price-driven approach in high-demand product categories is a tonic that will propel growth both now and well into the future.

Kids needle Va. governor on drug abuse

THE HUMAN SIDE
AL HELLER

A statewide drug abuse essay contest, sponsored by 85 Cardinal Drug Centers in Virginia, elicited sharp observations, fresh wisdom—and some disturbing comments—from the 200 five-to-fourteen-year-olds who entered. Their job was to write a two-page letter to Governor Wilder, telling him how to halt drug abuse.

The contest was conceived by a marketing team at five-store-operator Richmond Apothecaries, owned by pharmacist Dan Herbert, who signed onto the Cardinal network about 13 months ago. Laura Peery, a consultant for Cardinal, took the idea networkwide, using Cardinal's greater statewide presence to involve more people.

Cardinal, the franchised coop program of wholesaler Owens & Minor, has for the past year hosted an hour-long program, Kids and Drugs, every other Thursday on BLAB, a cable television station broadcast throughout Greater Richmond.

The anti-drug messages aired here, posters hung in stores, and cooperative work with the Greater Richmond Informed Parents group, got some young juices stirring during the summertime contest, which ended with winner Jason Daugherty and 12 runners-up being feted at a Triple A Richmond Braves baseball game on Aug. 29.

From Jason, age 12 of Shacklefords, Va.: "Keep kids busy doing activities that are fun and beneficial. . school projects, state highway cleanups. . . Construct a facility in schools. . .where kids can talk to other kids about taking drugs and what could happen. . .train kid counselors to talk to other kids . . .put books, cassette tapes and videotapes in public and school libraries."

From 9-year-old Merenda Garnett Kranz, second place, of Louisa, Va.: "Have one person for each school that has the experience of drugs. That person will tell what they went through. They will also tell what other drugs do to you.

"The person might be from jail. People from jail who don't do drugs anymore and are going to be let out of jail can do that for a job."

From 11-year-old Robert Brown, third place, of Richmond: "Taking drugs is like melting iron. Taking drugs is killing all good memories. Let's keep our memories alive!" He urged that drug users surrender their cars, be treated longer in hospitals, hear loving words from their families and be educated better.

Herbert, 48, who served as president of the Virginia Pharmaceutical Association in 1987, explained: "Parents say the problems are in school, the school says it's at home. We wanted to hear from the kids what they think people around them should be doing about drugs." He termed the contest a "quality success," but noted that the back-to-school promotion and contest tie-in raised BTS sales in his stores just 15 percent ("the recession," he says), compared with gains in prior years of 20 percent to 25 percent.

Next year, Cardinal will extend the program into September and possibly January for greater school involvement, said Peery. Herbert said he'd like to see 1,000 entries in 1992.

The need for balance in anti-drug messages was brought home vividly by five-year-old Maria Blackwell of Richmond, who wrote: "No drug stores. Only groceries with medicine. Throw them in jail."

Said Herbert: "Young kids don't distinguish between legal and illegal drugs. We have a generation of kids growing up associating drug stores as bad places. We need long-term education about the positive role of pharmaceuticals in life, and teach that drug stores are not the source of drug abuse."

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VP/Publisher JAY FORBES
Editor BRUCE BUCKLEY

Executive Editor Al Heller
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Desk Editor Carol Kearney
Assistant Desk Editor Fred Ruechter

Bureau Editors: James Frederick (Sr. Editor, Cleveland; (216) 642-3420), Ken Ranklin (Bureau Chief, Washington; (301) 774-3895), Deane Evans (Washington)

Art Director Bob Brekman
Graphic Artist Maryann Seery

Associate Publisher/
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REGIONAL SALES OFFICES

New York
Nat'l Accounts Manager Larry Krongold
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Office Manager: Maureen Jackson

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DEEP DISCOUNTERS

overview

Off-pricing comes into its own, led by the Big Three

By James Frederick

In the 1980s, the deep discount drug store industry presented its calling card to the American consuming public and to its chain drug and mass-market competitors. The card contained a simple message: welcome to the future of HBA retailing. Low prices are here to stay.

The message got through. After a relatively quiet start, the off-price industry erupted out of the East Central, Upper Midwest and Southeast regions of the U.S. It gathered steam as its theme of everyday low prices and brand-name items took hold, leapfrogging into scores of major markets and shaking the local retail balance. In the process, the low-price, volume merchandising strategy coalesced around a variety of different retail formats.

What has emerged are a handful of powerful off-price chains that dominate the business, led by the Big Three retailers with national or multiregional impact: Phar-Mor, Drug Emporium and F&M. Together, these three account for more than half of the industry's sales, which this year will top $8 billion.

Behind them, a slew of powerful regional off-pricers have also emerged to carve big chunks of the drug, discount and food-store business out of local markets. The second-tier list includes Marc Glassman, Inc. in greater Cleveland and Connecticut; Rock Bottom in New York; A.L. Price/Freddy's in Michigan, New York and Florida; Woolworth's RxPlace in the Northeast; and Rite Aid's Drug Palace in scattered markets.

It's a remarkably young industry, considering its enormous impact on the U.S. drug and general merchandise arena. Its pioneers include the late Bernie Shulman, Fred and Margaret Cohen (of F&M), Marc Glassman (still very much in charge of Marc's). Its history as a chain industry goes back to the day before yesterday—the late 1970s. Its biggest player, Phar-Mor, dates back all the way to 1981.

The granddaddy of the business, F&M, can trace its history all the way back to 1955, but F&M didn't open its second store for another 22 years. By then, Bernie Shulman's and Drug Emporium were beginning to make their mark.

There's a central paradox to this business. Deep-discount drug stores usually do best in upscale, higher-income neighborhoods.

It's not hard to see why: off-price stores depend on fast turns and lots of full shopping carts to offset their slim gross margins and keep the doors open. They want shoppers who can afford to stock up once or twice a month.

"If the shopper's question is to eat or buy toiletries, she's a onesy-twosy, not a stock-up shopper. She won't appreciate what a store like F&M can offer," F&M president Frank Newman once said in describing the chain's strategy of targeting educated, well-to-do families with its value concept.

Underlying this business strategy is a powerful realiza-

Continued on page 12

F&M DISTRIBUTORS

Stores per State			
		Total	101
Michigan	34	Projected by end of year	114
Illinois	30		
Baltimore/ Wash., D.C.	20		
Minnesota	8		
Wisconsin	3		
Indiana	3		
Ohio	2		
Massachusetts	1*		

**First Boston-area unit opened Sept. 10. A total of four Massachusetts projected by end of year.*

Source: F&M Distributors

DRUG EMPORIUM

Stores per State					
		Minnesota	4	Texas	28
		Missouri	6	Virginia	15
Arizona	12	Nebraska	1	Washington	12
Arkansas	1	Nevada	1	Wisconsin	5
Calif.	15	New Jersey	10	West Virginia	3
Fla.	5	New York	1		
Georgia	25	North Carolina	9	Total	217
Indiana	5	Ohio	14		
Kansas	1	Oklahoma	2		
Kentucky	5	Pennsylvania	15	*As of 9/5/91*	
Louisiana	3	South Carolina	3		
Maryland	15	Tennessee	1	Source: Drug Emporium	

Stores per State			
		New Jersey	1
		New Mexico	2
Alabama	4	N. Carolina	14
Arkansas	1	Ohio	19
Arizona	5	Oklahoma	1
California	1	Pennsylvania	31
Colorado	7	S. Carolina	10
Delaware	1	S. Dakota	1
Florida	45	Tennessee	5
Georgia	14	Texas	17
Illinois	29	Virginia	13
Indiana	11	W. Virginia	4
Iowa	4	Wisconsin	7
Kansas	2		
Kentucky	2	Total	268 in 31 states
Louisiana	3	(Plus 12 freestanding entertainment or liquor locations next to Phar-Mor stores.)	
Michigan	3		
Missouri	6		
Nebraska	1		
Nevada	4	Source: Phar-Mor	

Drug Emporium: a highly disciplined HBA specialist

Phil Wilber has never been accused of thinking small. The soft-spoken, affable founder and chairman of Drug Emporium has kept the chain on a fast-growth track almost from the beginning of its 14-year history.

Wilber opened his first Drug Emporium here in 1977, marrying the low-price buying and pricing concepts of deep-discounting with a more refined, less cluttered store format. The marriage was a hit with customers, and soon Wilber was expanding the concept to other Ohio locations.

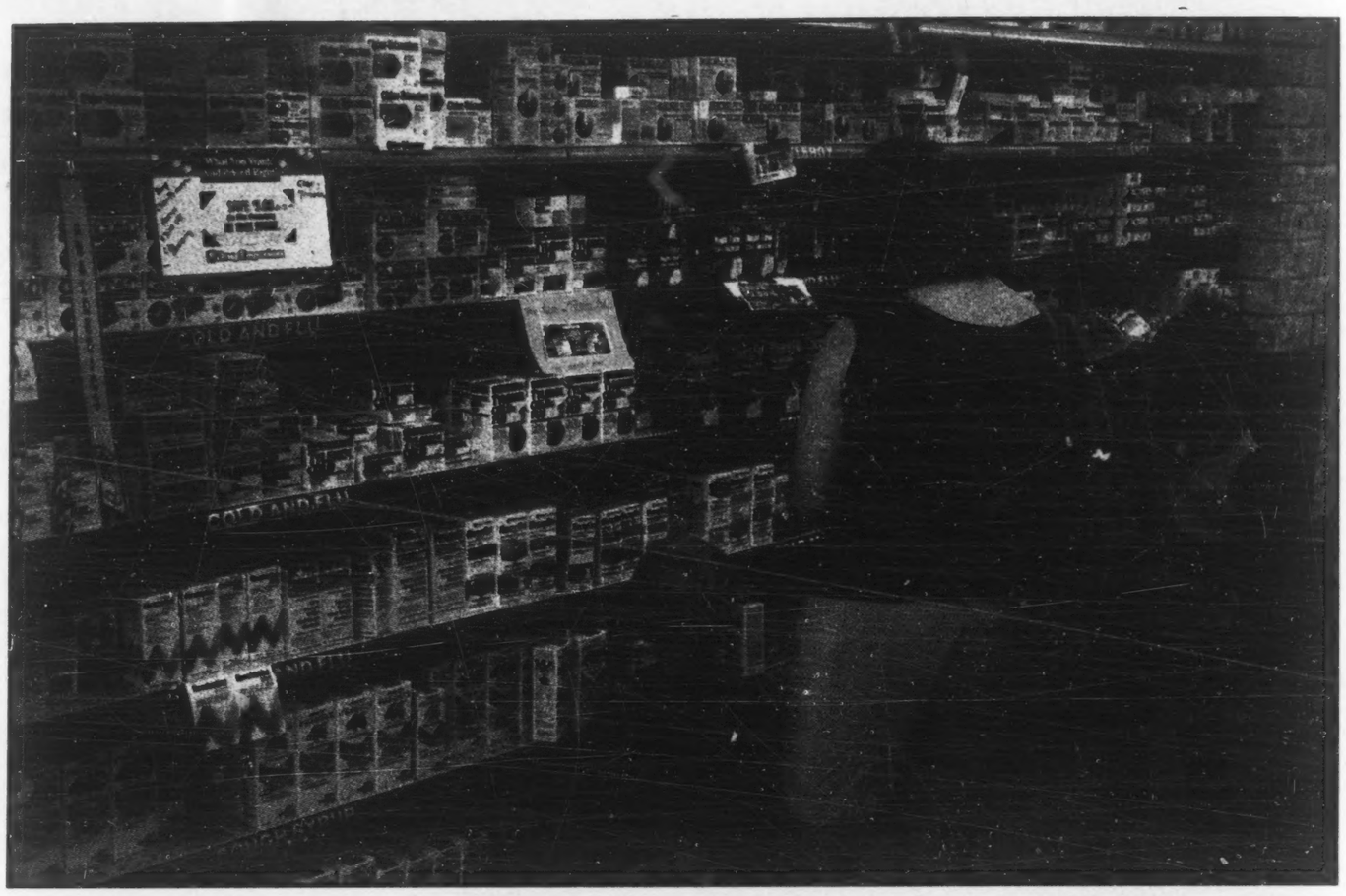
To overcome the fledgling company's initial capital limitations and expand more rapidly into new markets, Wilber began franchising the concept to operators around the country.

With help from son Gary—now chief executive—and a small cadre of other operations and merchandising people, Wilber refined and standardized Drug Emporium's buying, merchandising and business strategies.

In the process, Drug Emporium helped pioneer a more disciplined and centralized approach to a business that had previously been characterized by its entrepreneurial spirit and reliance on individual store management.

That more centralized approach helped Drug Emporium create the operating and merchandising standards that made franchising the concept possible, but it also allowed central-office buyers to develop real expertise in key merchandise categories like cosmetics, shampoos and OTC medicines.

That expertise has become a hallmark of Drug Emporium.



Drug Emporium, one of the top 10 retailers for most major HBA manufacturers, derives more than half its volume from HBA and seeks to overwhelm competition with assortments.

COLUMBUS, Ohio — Drug Emporium president Bob Lyons likes to describe the company's management philosophy as an "upside-down pyramid.

"The store is where the action is," he said recently. "We're decentralized—store managers make decisions."

Lyons' comments underscore the delicate decision-making balance required to run a successful off-price chain. That balance requires the right mix of centralized, standardized support and control over merchandising and marketing, with a strong dose of store-level autonomy and on-the-spot decision-making.

In the case of Drug Emporium, it means that store managers "make the quantity decisions in terms of purchasing," according to ceo Gary Wilber, while central buyer/merchandisers review categories and new items, plan strategies with vendors, maintain general merchandising standards and execute ad feature programs.

Both sides work to hone Drug Emporium's edge as one of the nation's top 10 retailers for most of the major manufacturers of HBA. Indeed, the chain bills itself as having "the nation's biggest selection of HBA." Selection in its stores bears out the claim.

In categories like eye care, hair care and pantyhose, in fact, Drug Emporium seeks nothing less than to overwhelm its competitors with selection. A case in point: stores carry roughly 220 eye care items alone, including a huge mix of cleansing and wetting solutions for contact lenses and specialized items for sensitive and sore eyes.

In eye care, hair care and pantyhose, Drug Emporium seeks nothing less than to overwhelm its competitors.

"Drug Emporium has been working hard to influence the customer mind-set," noted the company's most recent annual report. The goal: to position the stores as the specialist in HBA—from which the company derives more than 50 percent of its business—and related categories such as cosmetics/fragrances.

Rich Landers, vp-marketing and merchandising, explained it this way: "We market Drug Emporium. . .as the HBA specialist with deep-discount prices, providing customers with what they want, when they want it."

That focus on maintaining broad selections and remaining in-stock on HBA positions Drug Emporium differently from most off-price competitors who rely strictly on deal buys for a rotating mix. Indeed, founder Phil Wilber refers to the company as a "specialty drug store" that happens to maintain sharp everyday discounts.

Another crucial Drug Emporium difference: its stores route customers past a "What's Hot, What's New" aisle as they enter the store—hitting them with pallets of heavily advertised new "A" branded products in the first aisle.

To boost productivity, the chain has spent heavily over the past three years on new automation. Its efforts have yielded a new pharmacy computer system and new computer systems in every store for managers.

Led by Big Three, off-pricing comes into its own

Continued from page 11

tion: that even many upper-income consumers now behave like bargain-shoppers when stocking up on everyday items like shampoo, film and even movie rentals, provided they don't have to go too far out of their way or navigate through aisles filled with schlock merchandise to find their favorite brand names. Price, in other words, has become a top-of-mind consideration that now influences the everyday purchasing decisions of millions of American consumers. Deep discounters can take a big part of the credit (or blame, depending on your perspective) for that fact.

But the secret of the success of the Big Three is more than just their ability to scout the best deals and pass big savings on to their customers. Bargain-basement operators have always had that knack. The real reason for their success is that they took the steps necessary to bring everyday low prices on trusted, brand-name items to the vast mainstream of American consumers—including those who can afford to shop anywhere they want. They made bargain-hunting a legitimate and simple alternative.

The off-pricers did this by recognizing that it wasn't enough to fill the store with low-priced deal merchandise and open the doors. To secure a permanent market niche, they knew they had to behave like disciplined chain retailers. That meant going after market share with enough convenient locations to truly cover a market. It meant opening stores in "A" locations that were easy to get to—preferably in high-traffic destination locations. It meant going after deals and closeouts on the brand items most people insist on. It meant balancing the shopping excitement of a rotating blend of in-and-out deal product with enough in-stock consistency and predictability to keep people coming back for both reasons. And it meant a near-constant process of upgrading and renewing stores.

The reason for the Big Three's success: they bring everyday low prices on trusted, brand-name items.

It's a fine balancing act. On one hand, successful off-pricers generally go after mainstream, middle-income and upscale consumers by keeping stores clean and neat enough to make shopping easy and pleasant. But part of the allure of deep-discounting remains the fun, the excitement, the unpredictability of one-shot deals, cut-case stock stacked 10 feet high and—yes—a dollop of clutter and seasonal schlock to keep things interesting.

Too much in one or the other direction may be death. Then again, who knows? It's still a new industry, and despite the codification of certain principles, deep-discounters are still finding out what works and what doesn't as they go along. Lots of variations on the central low-gross theme seem to work.

That said, let's take a look at the growth and future of the industry by focusing on its three leading players with national impact: Phar-Mor, Drug Emporium and F&M. In a few short years, these three big players and a score of smaller ones have had an immeasurable impact on drug and mass merchandise retailing in the U.S.

Ethnic hair care sales steady but show little growth

SUMMARY: Ethnic hair care sales haven't changed much in the last year, but some segments are super productive, particularly relaxers, hair color, styling aids, color cosmetics, hair conditioners and bergamots.

As we move into the last quarter of 1991, the ethnic hair care product category, in terms of dollar growth, is basically static.

Although some sources estimate that industry sales are up by 3 to 5 percent because of sales to professional beauty store operators and salons, most distributors and category buyers say the trend at retail is down, possibly by as much as 5 percent in some markets.

At North American Beauty Service in Baltimore, Founder Dave Pearlman says that in the last six months, the category as a whole hasn't changed much. "It's matured to the point that we're not seeing the revolutionary changes that took place in the past."

He estimates that ethnic HBA sales may be up about 3 percent versus last year.

At Harco Drug in Alabama, ethnic product buyer Charles Monk reports his year-to-date same store sales are up about 5 percent, an accomplishment he strongly credits to Harco's aggressive promotions for ethnic. "Promoting as much as we do drives our business," he says.

In Oklahoma City, Kent Humphreys, president of Jack's Service Company, says the industry is sluggish, with growth off by as much as 5 percent. "There are no new products out there right now to drive the growth," he says, "although the good news is that there are some interesting developments coming."

Richard Eichholz, president of Ben Sheftall, also sees a "softness" at retail. "Easter sales weren't near what we anticipated, although the summer has been hot, and that's been good for business," he says.

Category segment analysis

There are several very strong growth segments within the category, but with the exception of relaxers, which accounts for about 15 to 18 percent of dollar sales, the largest growth is coming from segments with relatively small dollar bases.

Hair color is a very strong growth segment, but in some companies, it accounts for only 2 percent of total sales and in others, less than 5 percent.

At Standard Distributing in Detroit, president Dan Medow says that from July 1988 through July 1991, his sales of ethnic hair color increased by 62 percent. On a year-to-date basis, they are up 13 percent, and for some companies like Beauty Enterprises in Connecticut, hair color sales are up 40 percent versus last year.

"The hair color market is expanding and expanding," says Pearlman. "Dark & Lovely is doing very well and Creme of Nature is moving well too."

Relaxers

All our sources reported some growth in relaxer sales,

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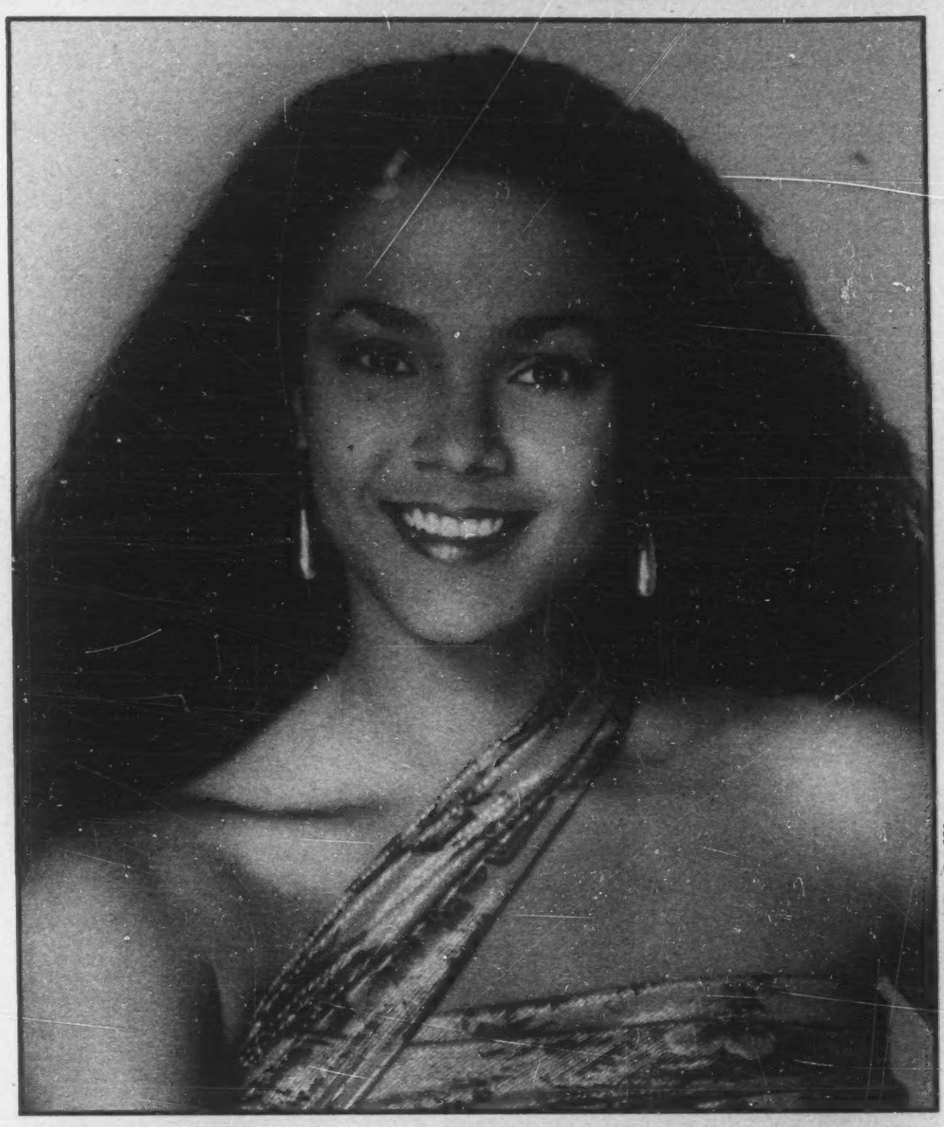

Photo credit: Maybelline

Hair color is a hot growth segment and one of the true bright spots for ethnic hair care in 1991. Relaxers and styling aids are also popular.

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Steady but static growth in ethnic hair care sales

Continued from page 88
up at least 5 percent in most cases. Dark & Lovely, Gentle Treatment, Soft & Beautiful and Creme of Nature were usually named as the four strongest brands in the segment.

"Relaxers are unbelievably hot," says Eichholz.

"Relaxers are doing so well because they give women so much versatility," says Pearlman. "You can try many different styles with relaxed hair."

According to TCB product manager Maggie Delatour, 70 percent of all ethnic women currently relax their hair. That's created a strong demand for maintenance products for relaxed hair, and TCB, which has a full line of these items, is about to kick off a new ad campaign designed to maximize that marketing opportunity.

Monk says he interprets the new program as Culver's signal that "they're going to get in there and make something happen. There hasn't been anything exciting coming out of TCB in a while," he says," and now they're going to be spending more aggressively and promoting more and more. They're participating in our beauty schools and they're supporting us so we'll be supporting them. It's exciting."

Growth segments

At Beauty Enterprises, buyer Jim Normandin reports that several small segments are showing way above average growth, including medicated conditioners, up 28 percent; soaps, up 22 percent; pomades, up 16 percent; hair food, up 14 percent; skin creams, up 12 percent, and aerosol sprays, up 15 percent.

Normandin singled out Ambi's bar soaps as a top brand in its category. In pomades, he said the top brands right now are Soft Sheen Sporting Waves Pomade and Murray's Hair Pomade. He said Luster's Oil Moisturizing Sheen Aerosol and Revlon's Finisheen are also doing well as is Bronner Brothers Super Gro and TCB Hot Oil.

Styling aids are hot

Styling aids are continuing to show exceptionally strong growth.

Geri Duncan Jones, executive director of the American Health and Beauty Aids Institute (AHBAI), says spritzes, sprays, gels and lotions are particularly popular right now. "These are all items that help finish the styles that people are wearing today," she says.

Humphrey says his two best selling spritzes are the New Era Spritz and the J.M. Products Isoplus Spritz. Eichholz is doing very well with the Summit Pre-Con Gel and with Vigorol.

Normandin also reports that styling gels are up 36 percent versus last year, with LeKair Styling Gel Extra Hold and Pro Con Gel leading the pack.

He adds that bergamots right now are showing the strongest growth in his markets with sales up 50 percent over last year. Posner's Bergamot and Blue Duchess Bergamot are two of Beauty Enterprises's best sellers.

Conditioners and Hair Dresses are up by 30 percent versus last year, he says. Ultra Sheen Conditioner and Lekair Cholesterol Creme are two of his best sellers.

At Harris Beauty Supply's Atlanta office, buyer Mike O'Brien said that the New Era Hot Oil is a relatively new item that is selling extremely well in his markets.

Hair styles, fashion trends

Comb kits and curl kits, however, are down, reflecting the changes in hair styling away from the curl.

From the fashion perspective, there is only one new hot hair style shaking up the market, and that's the wrap, which everyone says is getting more and more popular each day.

"The wrap has become very popular and it's getting stronger and stronger," says Pearlman. Because of the wrap, a new product segment has emerged: wrap lotions."

"The wrap continues to be hot all across the country," says Jones, "and that's been great for the sales of styling lotions that women need to keep the style in place."

Jones also notes that black men are still wearing their hair short. The high top look is still popular with the sides tapered and the hair on top cut high and flat. "Texturizers are selling well to men," Jones says. "They help make hair more manageable, and you see guys still using lots of gels and lotions to keep their hair set in place."

J.M. Products has an Isoplus Wrap Lotion that is doing very well at retail. Other brands also singled out are Revlon's Wrap & Tap, doing well in the salon market place as well as at retail when it's available, and Pro Line's Wrap Lotion, one of the first wrap products to go retail.

Pearlman says another new look is starting to develop at the salon level: the Waffle Wave. He says it's too soon to tell how big it may get or how long it will last, but he describes it as a "nice look" which requires the use of curling rods and setting lotions to maintain.

"The waffle wave is not a curl," says Jones, "it's really waves, but they're all through the hair, not just at the ends. It's quite attractive, and it also requires the use of styling aids to lock in the hair."

Jones also sees another styling trend emerging. "What's old is new again," she says. "We're seeing a resurgence of the hair styles of the '60s, particularly beehives and hair combed down and flipped up on the ends.

"Many women use a wrap for the beehive look," she says. "They take and wrap their hair some more and then set it with styling lotions."

Curl activator gels, hot just a year and half ago, are very, very soft now. Curl products can be a tricky call. Humphreys says his best curl products from a year ago are getting killed now, but an item like Care Free Curl Gold is still going strong.

"The product formulation is excellent," he says, "and the packaging is more sophisticated than is usually the case."

Children's grooming care

Soft Sheen brought something new into ethnic last year when it launched a children's toiletry line called Baby Love. Our sources report Baby Love is picking up nicely, with reports ranging from "It's selling very well" to "It's building."

Some big chains like Eckerd, Albertson's, and others are in the process of deciding whether they will cross merchandise Baby Love in with the baby or bath care category.

'It sells well in ethnic and baby," says Pearlman, "but I think it will do the best in with baby.

"We feel good about Baby Love," says Humphreys, "More and more chains are picking it up. The suggested retail prices may be a little too high, but when the price point is reasonable, it does all right."

At Perry Drug in Michigan, buyer Scott Gorley says they will cross merchandise Baby Love products in their kids' section within ethnic neighborhood stores.

Monk says, "There is a kids' market out there, and it's something we've got to watch real close. I can't tell for sure where it's going, but there are a lot of kids' items coming out and it may be a trend."

Monk adds Harco will be merchandising Baby Love in the ethnic department, partly because they're not ready at this point to create a separate merchandising department for kids toiletries.

Skin/shaving sales up

Skin care is another broad growth area for ethnic. Ambi is the best, according to many of our sources, but Palmer's skin lotions and Carson's Dr. Fred Palmer lotions also sell well.
In Michigan, Standard Distributing's president, Dan Medow, says that cocoa butter sticks and creams are doing exceptionally well. He says cocoa butter products account for "a big piece" of skin care sales, and he says in his markets, the Woltra 100 percent Pure Cocoa Butter stick has done exceptionally well.

Shaving is another good growth segment. Eichholz says razor bump products are doing very well, especially High Time Treatment from California-based High time Products.

Also very popular is American Safety Razor's Bump Fixer for men who find shaving painful. In the traditional shaving segment, Magic Shave Powder is still number one.

The shampoo market, led by Optimum Care and Creme of Nature, is still going strong and buyers say, they are expecting more launches in this segment soon.

New items look promising

Both Soft Sheen and Johnson are coming out with new relaxers, and buyers who have seen them are very positive.

"There are three, maybe four vendors who will be bringing out new things, and they will be spending big to get them going," says Humphreys.

Eichholz, who had seen the new Optimum Relaxer from Soft Sheen, thinks it will be really big. "It's the most successful salon no-lye relaxer of the '90s, so it's got the salon hype behind it, and it should be fantastic," he says.

"It's a significant entry because they've done an excellent job at retail with their Optimum Care maintenance line," says Medow, "and now, with the relaxer, they will also be building on their success with relaxers in the professional field."

On the West Coast, Chuck Lewman, president of Paul's Sundries, says that because Optimum Care has come on so strong, "The Optimum Relaxer should be a very nice extension, and I think very successful."

O'Brien says the Optimum Relaxer "could be one of the hottest items of the year."

He, like other distributors we talked to, also likes the new Gentle Treatment For Gray Hair that Johnson products is introducing. "We're doing great with hair color because the baby boomers are getting older," he says. "This could be very popular with consumers who are getting older."

"There are lots of women who haven't used relaxers yet, and many of them are probably older," said Eichholz.

"This may be the niche for them. It's formulated to be gentle and women who are older who worry about breakage can be safe trying this one. It's the first entry targeted directly to that market," says Medow , "so it's definitely an item to watch."

From his conversations with vendors participating in this summer's BBI and Bronner Brothers trade shows, Medow is predicting that both Revlon, with its Revlon Roux and Creme of Nature, and Alberto Culver, with TCB, will be very aggressive in the coming year with advertising and promotions. Both have new marketing programs under way that Medow describes as "very exciting."

Ethnic Products: Six Month Analysis of Category Segment Sales

(Six months thru July 31, 1991 versus July 31, 1990)

Segment	% share of ethnic dollar product sales 1991	% share of ethnic dollar product sales 1990	Dollar Volume % chng vs. last year
Activators	18.6%	20.4%	−11%
Hair dress/ conditioners	19.5	18.3	5
Relaxer kits	17.8	17.9	− 2
Moisturizers	5.6	6.8	−19
Curl & wave kits	5.9	6.3	− 8
Styling products	5.4	5.2	2
Skin care	5.1	5.0	2
Comb out/oil sheen	2.9	3.6	−22
Wave products	3.7	3.4	7
Hair coloring	3.4	3.4	− 1
Cosmetics	4.8	3.1	54
Shaving products	3.5	3.0	15
Conditioners	1.7	1.8	− 6
Shampoos	1.5	1.5	1
Pressing products	0.4	0.4	− 8
Total ethnic category	100.0%	100.0%	− 2

Source: Towne-Oller & Associates.

Buying better raises Genovese's net income

MELVILLE, N.Y. — Genovese Drug Stores raised its net income 54.5 percent for the second quarter and 44.7 percent for the first half ended Aug. 16. Jerome Stengel, vp and treasurer, said the dramatic increases were largely attributable to controlling expenses and "buying better."

Net income for the quarter was $1.2 million, on sales of $100.5 million, compared with net income of $795,000 for the year-ago period, on sales of $96.9 million.

For the half, net income was $2.7 million, on sales of $233.5 million, versus net income of $1.9 million, on sales of $225.4 million, in the previous first half.

Giant is changing strategy

WASHINGTON — Giant Food, citing the recession's impact on consumer behavior here and in Baltimore as the main factor, reported a small gain in sales and a drop in net income for the second quarter and first half ended Aug. 11.

Second-quarter sales were $780.4 million, a 2.15 percent increase over the $764 million posted in the comparable period last year. Net income fell to $19.1 million from $25.8 million in last year's second-quarter.

For the first half, sales rose 2.02 percent, to $1.6 billion from $1.5 billion, and net income dropped to $48.3 million from $54.3 million.

In an effort to improve sales volume, Giant reduced everyday prices on 7,000 HBA and general merchandise items at the end of July. According to the company, these markdowns and the consequent lower gross margins, along with flat sales volume, led to the earnings decline for the quarter and six months.

Giant said it anticipates improved sales during the second half, as the new lower-price strategy takes hold with consumers.

Wholesalers report strong profit gains

INDIANAPOLIS — **Bindley Western Industries** posted record results for the second quarter and six months ended June 30.

Six-month earnings rose 21 percent, to $4.1 million, on sales of $1.1 billion, which rose 19 percent. In the comparable six months last year, earnings were $3.4 million, on sales of $916 million.

For the second quarter, sales rose 13 percent, to $546 million from $483 million, and earnings were $2.1 million, a 19 percent gain over the $1.8 million posted for the period last year.

Sales to accounts other than chain warehouses, at $115 million, grew to 21 percent of total sales in the second quarter, a 30 percent increase over the period last year. Direct-store delivery sales generate substantially higher margins than chain warehouse sales, noted chairman and ceo William E. Bindley. He added that this trend is expected to continue as Bindley's new full-line, full-service DCs in San Dimas, Calif., and Charlotte, N.C., which opened during the second quarter, become fully operational.

RICHMOND, Va. — **Owens & Minor** reported record second-quarter sales of $321.5 million, up 6.9 percent from $300.7 million in the comparable period last year, and a 38.7 percent increase in earnings, to $2.7 million from $2 million.

Sales for the six months ended June 30 were a record $634.5 million, a 6.9 percent gain over the $593.3 million reported for the like year-ago period.

Earnings for the six months were $5.1 million, up 45 percent from $3.5 million in the 1990 period.

Said G. Gilmer Minor III, president and ceo, "Our primary focus in 1991—to improve gross margin, lower SG&A expense as a percent of sales and more effectively manage our assets—is working. With an improving economy and a more positive employment picture, sales are expected to grow at an eight to 10 percent rate in the second half of the year."

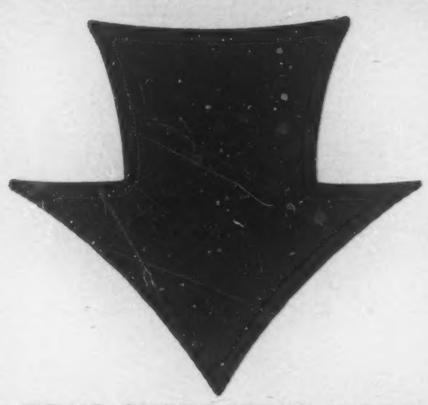
MARKET DIARY:

Largest Dollar Gainer	Merck Co.	$ 6.63
Largest Dollar Loser	Great Atlantic&Pacific Tea	$ – 5.63
Largest Percentage Gainer	Pharmaceutical Resources	37.50%
Largest Percentage Loser	Fay's Inc.	– 21.24%

Advances	19
Declines	34
Unchanged	4
New highs	14
New lows	2

	Close 8/27/91	Close 9/17/91	Net Change	Percent Change
Drug Store News Index	4213.83	4192.39	– 21.45	– 0.51
Dow Jones Industrial Average	3026.16	3013.19	– 12.97	– 0.43
Standard & Poor's 500-Stock Index	393.06	385.50	– 7.56	– 1.92
N.Y.S.E. Composite	215.26	211.54	– 3.72	– 1.73
Value Line Index	243.89	239.48	– 4.41	– 1.81

Source: Nordby International Inc., Boulder, Colo.



DRUG STORE NEWS INDEX

Exch	Company	Ticker Symbol	Closing Price 8/27/91	Closing Price 9/17/91	Net Change In Period	Percent Change In Period	P/E Ratio	Annual Dividend Rate	Annual Dividend Yield	Annual High	Annual Low
Chain store transactions											
OTC	Accuhealth Inc.	ACCU	4.88	4.88	0.00	0.00	19	0.00	0.00	7.25	4.50
OTC	Arbor Drugs	ARBR	18.75	19.75	1.00	5.33	23	0.12	0.61	21.25	8.88
OTC	Big B	BIGB	11.50	12.00	0.50	4.35	21	0.16	1.33	14.50	4.75
OTC	Drug Emporium	DEMP	6.88	6.75	– 0.13	– 1.82	15	0.12	1.78	9.63	6.63
NYS	Fay's Inc.	FAY	14.13	11.13	– 3.00	– 21.24	16	0.20	1.80	15.75	7.25
ASE	Genovese Drug (H)	GDX.A	13.13	12.88	– 0.25	– 1.90	15	0.24	1.86	13.88	5.00
NYS	Longs Drug Stores	LDG	38.38	37.50	– 0.88	– 2.28	13	1.08	2.88	44.38	30.88
OTC	Medicine Shoppe	MSII	21.50	22.25	0.75	3.49	18	0.32	1.44	28.75	15.50
NYS	Perry Drug	PDS	8.00	7.75	– 0.25	– 3.13	194	0.00	0.00	8.50	3.75
NYS	Rite Aid Corp.	RAD	23.50	23.00	– 0.50	– 2.13	17	0.48	2.09	23.88	14.75
NYS	Walgreen Co.	WAG	33.75	32.88	– 0.88	– 2.59	21	0.44	1.34	35.88	21.50
Wholesaler's transactions											
ASE	Bergen Brunswig (s)	BBC	21.80	22.25	0.45	2.06	15	0.40	1.80	26.19	17.09
OTC	Bindley Western Ind.	BIND	14.13	15.13	1.00	7.08	14	0.04	0.26	18.13	8.63
OTC	Cardinal Distribution	CDIC	44.25	46.00	1.75	3.95	33	0.08	0.17	46.25	19.00
OTC	Durr-Fillauer	DUFM	30.25	30.00	– 0.25	– 0.83	20	0.28	0.93	34.75	16.00
NYS	McKesson Corp. (H)	MCK	35.63	37.13	1.50	4.21	15	1.60	4.31	38.75	26.88
ASE	Moore Medical	MMD	5.88	4.75	– 1.13	– 19.15	—	0.00	0.00	9.25	3.50
NYS	Owens & Minor	OMI	18.00	16.75	– 1.25	– 6.94	21	0.20	1.19	18.75	7.25
Manufacturer's transactions											
NYS	Abbott Labs (H)	ABT	54.50	53.75	– 0.75	– 1.38	23	1.00	1.86	55.63	37.13
NYS	American Home Products (H)	AHP	63.88	66.88	3.00	4.70	17	2.28	3.41	66.88	44.00
ASE	Barr Laboratories (H)	BRL	21.00	27.00	6.00	28.57	47	0.00	0.00	28.00	5.50
NYS	Baxter International	BAX	35.63	34.38	– 1.25	– 3.51	18	0.72	2.09	37.13	22.63
OTC	Block Drugs Co.	BLOCA	55.00	54.25	– 0.75	– 1.36	18	0.80	1.47	57.50	29.63
ASE	Bolar Pharmaceutical (H)	BLR	5.50	6.63	1.13	20.45	—	0.00	0.00	8.50	1.88
NYS	Bristol-Myers Squibb (H)	BMY	87.50	86.13	– 1.38	– 1.57	24	2.40	2.79	87.88	55.50
NYS	Carter-Wallace (H)	CAR	80.63	80.13	– 0.50	– 0.62	23	1.00	1.25	83.88	44.88
ASE	Columbia Labs	COB	7.88	7.00	– 0.88	– 11.11	—	0.00	0.00	9.50	3.63
ASE	Forest Labs	FRX	37.50	32.13	– 5.38	– 14.33	33	0.00	0.00	43.63	19.25
ASE	Halsey Drug	HDG	5.13	5.06	– 0.06	– 1.21	23	0.00	0.00	5.94	2.19
NYS	ICN Pharmaceutical	ICN	5.50	5.50	0.00	0.00	—	0.00	0.00	8.00	2.50
ASE	Lee Pharmaceutical	LPH	0.88	0.94	0.06	7.20	—	0.00	0.00	2.25	0.88
ASE	Leiner P. Nutrition	PLI	10.25	11.25	1.00	9.76	10	0.00	0.00	13.38	6.75
NYS	Lilly Eli Co.	LLY	83.38	81.13	– 2.25	– 2.70	19	2.00	2.47	85.13	65.63
NYS	Marion Merrell Dow (L)	MKC	32.25	28.88	– 3.38	– 10.47	15	0.92	3.19	39.63	28.88
NYS	Merck Co. (H)	MRK	125.13	131.75	6.63	5.29	26	2.52	1.91	131.75	72.38
NYS	Mylan Labs (H)	MYL	26.75	29.63	2.88	10.75	32	0.20	0.68	31.63	15.50
NYS	Pfizer Inc. (H)	PFE	64.63	64.88	0.25	0.39	26	1.32	2.03	68.25	33.88
NYS	Pharmaceutical Resources	PRX	3.00	4.13	1.13	37.50	—	0.00	0.00	6.13	2.63
NYS	Rhone-Poulenc Rorer (H)	RPR	46.00	48.00	2.00	4.35	21	0.44	0.92	48.00	29.75
NYS	Schering Plough (H)	SGP	57.13	55.88	– 1.25	– 2.19	20	1.32	2.36	58.63	40.38
NYS	Syntex Corp. (H)	SYN	46.50	41.50	– 5.00	– 10.75	22	0.92	2.22	47.88	24.63
OTC	Taro-Vit Industries	TAROF	3.63	3.63	0.00	0.00	121	0.00	0.00	4.25	2.13
NYS	Upjohn Co.	UPJ	43.88	44.38	0.50	1.14	17	1.16	2.61	49.25	33.00
NYS	Warner-Lambert	WLA	71.25	70.00	– 1.25	– 1.75	18	1.76	2.51	82.25	56.50
OTC	Zenith Labs	ZENL	11.75	14.00	2.25	19.15	70	0.00	0.00	15.50	5.00
Other retailer transactions											
NYS	Albertson's	ABS	42.25	39.75	– 2.50	– 5.92	21	0.56	1.41	51.38	28.00
NYS	American Stores	ASC	39.75	35.75	– 4.00	– 10.06	9	0.56	1.57	46.19	21.31
NYS	Giant Food	GFS.A	23.88	22.50	– 1.38	– 5.76	12	0.64	2.84	31.25	21.13
NYS	Great Atlantic&Pacific Tea (L)	GAP	38.88	33.25	– 5.63	– 14.47	9	0.80	2.41	57.75	33.25
NYS	Kmart	KM	45.50	42.13	– 3.38	– 7.42	11	1.76	4.18	49.50	23.38
NYS	Kroger	KR	17.88	15.63	– 2.25	– 12.59	12	0.00	0.00	24.50	10.63
NYS	Melville Corp.	MES	47.88	47.13	– 0.75	– 1.57	14	1.44	3.06	55.25	32.75
OTC	Fred Meyer	MEYR	21.75	21.75	0.00	0.00	14	0.00	0.00	22.75	10.00
NYS	Penney, JC	JCP	50.75	48.13	– 2.63	– 5.17	14	2.64	5.49	58.25	37.38
NYS	Safeway	SWY	18.50	16.38	– 2.13	– 11.49	15	0.00	0.00	21.63	10.25
NYS	Smith's Food & Drug	SFD	40.75	37.25	– 3.50	– 8.59	24	0.36	0.97	43.75	24.75
NYS	Wal-Mart	WMT	50.13	49.75	– 0.38	– 0.75	40	0.16	0.32	51.88	24.88

Note: Bergen Brunswig completed a 5-for-4 stock split.
Per Pharmaceutical changed its name to Pharmaceutical Resources.
Key: (H) = New annual high reached in the bi-weekly period. (L) = New annual low reached in the bi-weekly period. (d) = Deficit. NYS = New York. ASE = American. OTC = Over the counter. (s) = Reflects stock split.
Source: Nordby International, Inc., Boulder, Colorado (303) 449-0326.

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for the PHARMACIST

NEWS FOCUS

●At least a half dozen manufacturers are expected to uncork nonprescription 1 percent hydrocortisone products in the wake of FDA's decision to switch the drug from Rx to OTC. The anti-itch medication has been available OTC in lower concentrations for more than a decade.

FDA also directed all hydrocortisone makers to adopt new label warnings advising patients to discontinue use and consult a physician if symptoms persist more than seven days.

●Volumes have been written about the role of pharmacists, but the Joint Commission of Pharmacy Practitioners appeared determined to boil away excess verbiage. JCPP drafted a "provisional mission statement for pharmacy practitioners" that states: "The mission of pharmacy practice is to help people make the best use of medication."

The group is seeking comments from pharmacists on this terse mission statement. (Write D.C. Huffman Jr., Ph.D., c/o American College of Apothecaries, 205 Dangerfield Rd., Alexandria, VA 22314.)

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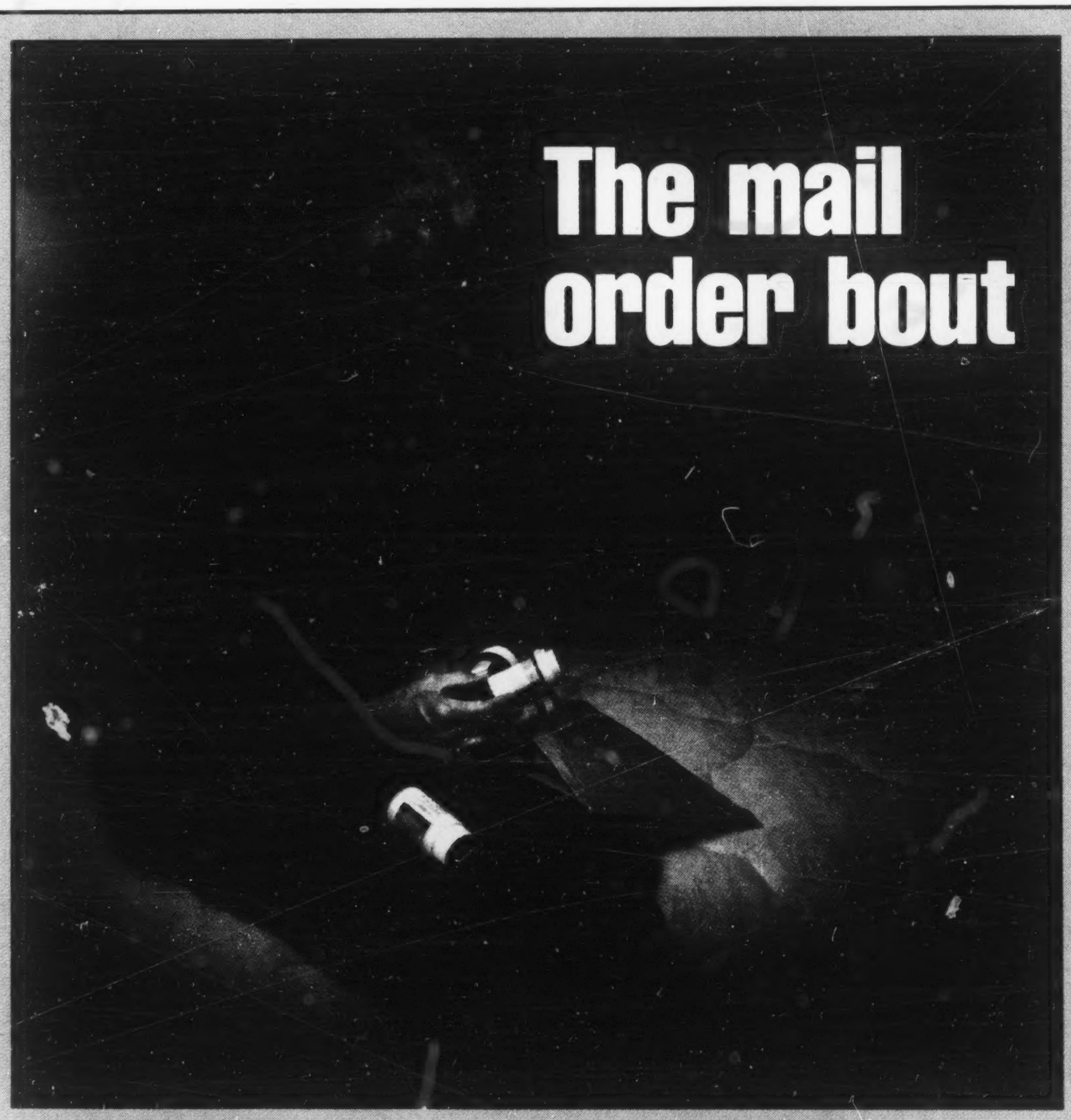

The mail order bout

Is the customer caught in middle?

Mail order pharmacy sales have grown from $100 million in 1981 to an estimated $3 billion in 1991.

That 30-fold growth in a single decade has triggered the fears and animosity of community-based retail pharmacies, who feel this is business that should have been theirs. For the Pharmacist *examines the arguments, the studies supporting both sides, the prospects for continued growth, and the strategies needed by retailers to compete.* Beginning on pg. 23.

The bout continues over mail order pharmacy

By Dianne Tharp, R.Ph.

What are your feelings about mail order pharmacy?

Those three little words evoke strong emotions, con and pro, from people in pharmacy—with no middle ground apparent.

The most visible battle today pits NARD against the American Managed Care Pharmacy Association (AMCPA). NARD, the national association representing independent pharmacists, has made as its priority a campaign to discredit and dismantle organized mail service pharmacy. In its monthly journal, it devotes a page to "Mail Order Alert"—a series of items detailing victories, alleging preferential pricing and tax breaks, documenting misfills by mail, and offering strategies to compete.

Old adversaries

But this is not a new war. In 1983, NARD established a mail order problems clearinghouse with the Michigan Pharmacists Association to gather ammunition for its escalating battle. In NARD literature, mail order pharmacy and pharmacists are often referred to as "second-rate, unregulated, . . .dangerous" and a "public health threat."

The battle spills over to the legal front, too. The Insurance Competitive Pricing Act [H.R.9/S.430] is the latest legal attempt to loosen the foothold home-delivered prescription services have gained in society. H.R.9 hopes to repeal insurance companies' exemption from antitrust prosecution—which is how health insurance forces patients to use mail order, according to NARD. And NARD's latest complaint is with HCFA's draft regulations for OBRA '90, excusing mail order firms from the verbal counseling requirement.

Insurance Competitive Pricing Act: hopes to repeal insurance companies' exemption from antitrust prosecution.

All this seems to have pushed the mail order organization too far.

In an August 16 letter to the Federal Trade Commission, AMCPA executive vp Delbert Konnor urged the FTC to declare NARD's campaign unlawful, and to take action to "prevent consumers from being misled by NARD's unfair and unsubstantiated claims."

NARD responded by firing off its own letter to the FTC asking for an investigation into AMCPA pricing procedures. Stay tuned for the next volley.

The AMCPA is a trade association comprising 11 mail order firms, with 11 pharmaceutical manufacturers (brand and generic) as associate members. The association was organized to defend and promote the efforts of mail service pharmacy. Established in 1975 as the National Mail Service Pharmacy Association, the organization changed its name four years later.

While some people suggest that the name change was an attempt to disguise its mission, AMCPA insists that the new name symbolizes a change in focus from the provision of a product to the provision of a service, which includes information management, prescription monitoring and other value-added services on the clients request. But all this service has a

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price to Del Konnor, "Only if the program beneficiaries are willing to pay for service will they obtain it."

Konnor describes mail service as highly structured, centralized dispensing with cost containment and cost efficiency achieved through low overhead, generic dispensing, volume-buying power, the efficient use of personnel, and the application of mechanical and electronic technology to the dispensing process.

Cost benefit?

But does mail order really save money, and for whom? While third parties like Virginia Blue Cross and New York Medicaid are adding a new mail order benefit in the belief that it does, and Medco Containment Services now fills 450,000 prescriptions per week, some who have experience with mail order are dropping this provision in their health plans. According to *Marion's Managed Care Digest* study of 1990, 16 percent of HMO's had mail order in 1988; only 8 percent had it in 1989.

Other benefits managers see no savings with mail order pharmacy plans. Henry Blissenbach, vp of pharmacy programs for UHC's Diversified Pharmaceutical Services "has not found one [mail order company] including the largest, that would save us any money." In *Third Party Rx* newsletter, Richard Eckstrom, president of Cost Containment Corp., was quoted as saying that most of the savings in mail order benefit he has studied go to the employee. He said he stresses to his clients that mail order is less likely to be a cost saver for the employer.

Asked if mail order saves money for the benefits provider, Mitch Wasserman, vp of corporate development at Insurex, Inc., replied: "It depends on the plan design and the mail order vendor." Interestingly, Wasserman noted that employees tend to view mail order pharmacy service as an enhancement to their benefits which could enable employers to cut other benefits, whether or not mail order actually saves money.

Dr. Ken Kirk, Texas College of Pharmacy at Austin, analyzed his own university's proposed mail order plan and discovered that, in his opinion, "adequate data was not presented to show that Medco would save money over retail [pharmacies]."

And Beach Hall, recently retired director of health care operations for General Motors, told execs attending the NACDS Pharmaceutical Conference, that GM's seven-year-old mail order benefit is, "at best, a break-even operation." He added that the auto giant's mail order scripts are stable at 7 percent, and not a threat to well-run retail pharmacies active in patient interaction. Asked if he would use the mail order benefit himself, Hall replied that he will continue to have his prescriptions filled at his community (independent) pharmacy.

What about all the studies of mail order that are touted by proponents and opponents with such fervor and certitude? Kirking and Ascione in "An Analysis of Research on Mail Order Pharmacy Services" critiqued 10 studies comparing mail order with community pharmacy services. They explain the conflicting results of various studies is partly the result of variations in types of plans and populations studied. The bottom line of their analysis: "A definitive assessment of the economic issues related to mail order pharmacy services, along with patient satisfaction and other measures of quality, cannot be made based on existing research."

They conclude that objective, readily available, quality research comparing mail order to community pharmacy services, including quality of care issues, identifying drugs better suited for longer term dispensing and optimum days supply of medications, has yet to be done.

This need for more information is supported by Wasserman. He said that until recently, most studies were comparing mail order services to card programs.

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Comparing mail-order pharmacies

Below is a sampling of a dozen best-selling drugs and six mail-order pharmacies plus a national drug store chain to see how their costs compare. All prices are for quantities of 100.

	Action-Mail Order 800-452-1878	AARP* 202-872-4700	Family Pharmaceuticals 800-922-3444	Medi-Mail 800-331-1458	National Pharmacies 202-347-8800	Pharmail 800-237-6927	Typical drug store
Cardizem, 60mg	$ 43.39	$ 47.95	$ 52.31	$ 49.95	$ 44.80	$ 48.99	$ 50.99
Diazepam, 5mg	11.99	9.45	12.75	6.95	7.95	4.99	10.99
Dyazide, 25/50mg	26.99	28.95	27.54	29.95	29.95	26.99	27.99
Feldene, 20mg	173.39	169.65	167.67	187.95	134.39	176.00	177.59
Furosemide, 40mg	6.69	5.95	5.37	4.95	6.48	4.99	6.99
Ibuprofen, 600mg	14.99	10.95	14.29	8.69	9.99	5.99	11.99
Mevacor, 20mg	163.39	154.95	174.35	158.95	185.35	155.00	158.29
Prozac, 20mg	140.39	147.85	157.82	156.95	168.82	152.00	159.19
Tenormin, 50mg	63.99	64.70	70.27	68.95	58.95	67.99	62.99
Valium, 5mg	38.39	47.25	47.29	47.50	36.98	46.99	46.99
Zantac, 150mg	119.99	120.45	120.15	130.95	106.98	125.00	120.29
Acetaminophen, 325mg	1.99	3.49/200	2.73	2.81	3.88	1.99	5.39
Postage & handling	0.50	1.00	1.50	1.48	0.50 Max.	†none	

*Available to members only.
†$10 minimum purchase per order.

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The bout continues over mail order pharmacy

Some opponents are gradually realizing that mail order may have an acceptable, limited role.

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Insurex also collects data on indemnity programs, and, since 75 percent of employers provide prescription drug benefits through major medical programs, this comparison must be investigated.

In spite of the apparent deficiencies in existing studies, organizations such as the AMA and the ASHP use them to support their positions. AMA says that mail order pharmacy is appropriate for patients with long-term chronic illnesses who have been adequately informed about their medicines. And ASHP says mail service pharmacies are "viable alternatives" for maintenance meds. One pharmacy benefits management company run by pharmacists, which asked not to be identified, offers mail order as an alternative, but focuses on walk-in pharmacies as the backbone of its business based on existing studies.

A new pilot program

Hopefully, a better basis for deciding about mail order will come from studies like the Tufts/PCS maintenance drug program.

Robert C. Johnson of PCS, co-sponsor of the study, cites the price emphasis of the past, and today's shift to cost-effective health care as the reason for the Tufts study, which begins this month. The Massachusetts HMO will use PCS' RECAP to dispense maintenance medicines to the chronically ill as an alternative to mail order. The major difference between this program and mail order are the initial dispensing of a trial quantity, with refills at maintenance quantities, so less waste is anticipated.

Also unique to this study: pharmacists will be reimbursed at a 25-percent fee increase for each additional 30 days supply dispensed. In effect, the pharmacist will receive more money for playing a role in compliance and managing patient care. As a result of this study, the hope is that payors will better understand the important role of pharmacist hands-on patient care, says Johnson.

Not only are traditional pharmaceutical suppliers paying attention to mail order, but also some pharmacy educators have expressed concerns regarding new educational opportunities. Today's students learn face-to-face communication, physical assessment, patient observation and clinical intervention.

Does the curriculum need to be modified to better prepare the pharmacy students who elect to practice in the mail order environment? A recent employment ad for National Rx Services touts a four- or five-day week, free nights and weekends, and part-time hours, if desired. From a scheduling perspective alone, mail service pharmacy can offer students an advantage over most chain outlets, and may be in the students' future employment plans.

So, given the great concern of all noted, controversies over study results and negative campaign efforts of organized pharmacy groups, how do we account for the continued growth of mail order? It has been suggested that aggressive marketing by mail order companies to corporate buyers is one of the reasons for the growth. If so, community pharmacies can compete if they establish the value of their pharmacy services with benefits managers. As farfetched as it might seem, even greater effectiveness would result if chains and independents market together to both benefits managers and customers.

The fact that community pharmacies can also compete on price is being demonstrated. Rx-1, for example, is a cooperative of 40 independents in 14 states that put together a pricing handbook to beat every AARP top 100 price, and have experienced an increase in business as a result.

What's in store?

With all these alternatives being offered to mail order, what is the future of mail order pharmacy service? Del Konnor predicts greater than $6 billion, or 15 percent of all prescriptions filled in 1995, will by provided by mail service pharmacies. John McHugh, president of Retired Persons Services, Inc., does not feel the industry has matured, but is more conservative in his growth prediction.

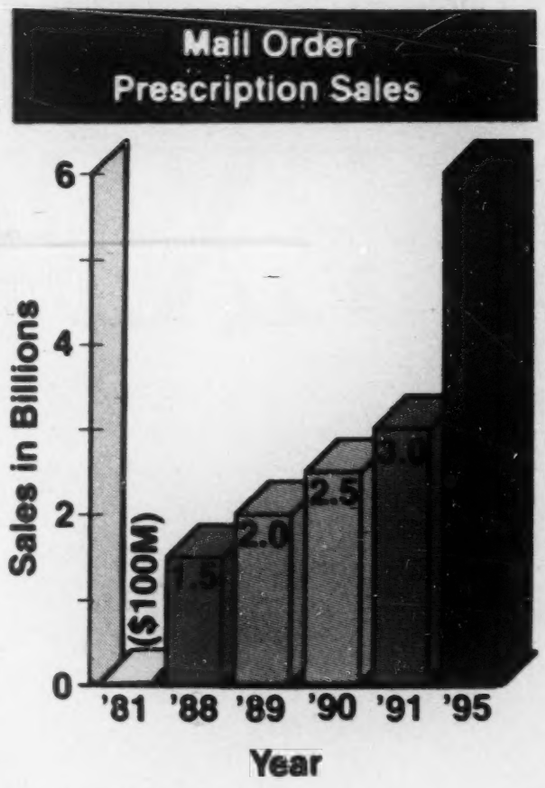
Konnor sees three key growth areas for mail order pharmacy:

- information management
- performance and accountability
- patient services

He believes mail order will play a major role in a national health care scheme with such value-added services as timely management data reports, prescriber and patient reports, a system to monitor compliance and drug interactions, and clinical services like patient education and compliance monitoring. Those who hope to compete should take note.

Since the first mail order prescription was shipped by the Veterans Administration in 1946, some opponents are gradually coming to realize that there may be an acceptable, limited role for the service in contemporary pharmacy practice.

Although a policy statement of the AMCPA equates Freedom-of-Choice legislation with economic protectionism, their vp has perhaps said it best: ". . .the consumer has been and will continue to be the best judge of the acceptance of home-delivered pharmacy services." ■



Source: AMCPA